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MEMORANDUM FOR: Mr. Stephen Lowe, Senior Staff Member,
National Security Council

SUBJECT : Honduras' Melgar After One Year--
A Steadying Ship

1. The Melgar Castro government in Honduras, having weathered the unsettled, rumor-laden atmosphere of its initial months in power, is approaching its first anniversary amid signs of growing confidence. The Superior Defense Council, the 27-man group of lieutenant colonels that installed this government, remains the power behind Melgar. This group removed former chief of state and head of the armed forces General Lopez last April 22 after the investigation of the United Brands banana bribe scandal implicated high level administration figures and doomed his corruption-ridden administration.

2. Initially, the lieutenant colonels appeared able to agree on little and the governments direction and staying power were in considerable doubt. Rumors of plotting were commonplace and the government faced peasant unrest and suspicious Central American neighbors who feared a Peruvian-style revolution. With the added problems of an economy ravaged by hurricane Fifi in 1974 and a simmering border dispute with El Salvador, the Melgar government's future was uncertain at best.

Military Stabilizing

3. Today, many of the government's then most pressing problems have abated. The Superior Defense Council

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has of necessity delegated much of the day-to-day governing responsibility to Melgar so that its members can devote attention to their military duties. No single individual or group of officers appears capable of seriously challenging Melgar and forcing the remainder of the council to fall into line. Reflecting this, the council governs by consensus. Moreover all of the commands suffer from inadequate weapons, equipment, and training and this tends to deter individual commanders from attempting a power play. Melgar, for his part, appears content with his role and has not created any frictions.

4. The Superior Defense Council is best described as a centrist group. Its members range from right to left on the political spectrum, but even the reform-minded progressives appear more concerned with shedding the image of the corrupt, inept Lopez years than with any burning ideological desire to experiment with the traditional political system.

Greater Confidence

5. With the internal military situation somewhat stabilized, the government has taken several steps that reflect its increased confidence. Melgar has indicated the government will remain in power until 1979 and in March, his government announced the establishment of a 48-man national advisory council, whose members will be drawn largely from the political parties, armed forces, labor, business, and peasant groups. It will have a rudimentary legislative role, empowered to draft a new electoral law and provide advisory opinions on policy matters. The traditional parties have complained that they are not allotted sufficient representation, but they are likely to join eventually rather than be left out in the cold. Labor unions, campesino groups, and the unregistered political parties have supported the formation of the advisory council. Although the actual influence of the council has yet to be demonstrated, it will give political, labor, and business groups a chance to air their opinions and relieve potential political frustration and criticism.

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6. Other actions also reflect greater control and a moderate course. Early this year the local communist party began readying a challenge to take over the powerful north-coast labor federation, an effort which, if successful, would have been a stepping stone to control of a major labor federation and the campesino movement. Democratic elements cooperated to help turn back the challenge and the government took the wind out of the leftists' sails by firing the communist leadership of the agrarian reform institute union and cancelling proposed trips by communist leaders to bloc countries. The cowed communist leadership meekly accepted defeat at the labor federation's April convention. The communists still represent a potential threat in labor, but any near-term danger has been significantly reduced.

7. Peasant groups are also far more tranquil this year. When the Melgar government took over, it was faced with protests by campesinos demanding more rapid agrarian reform. The government reacted by dispatching troops to halt a march on the capital, and clashes left several campesinos dead. Landowners, in collaboration with some local police and military officials, also murdered two Catholic priests, two students, and six peasants involved in the rural movement. The revelations accompanying the murders damaged the prestige of the new government and it proceeded with a full investigation. The trial of the landowners and military officials is now being conducted. Whatever the outcome, however, the action against the peasants apparently had a sobering effect on rural leaders and the government has had few recent problems. Several of the pressures inciting the peasants to action last year--an extended drought and a severely depressed economy--have also eased.

8. Melgar has also bolstered his reputation among his Central American colleagues and has at least temporarily calmed their worries. Melgar's new foreign minister has made progress toward a border treaty with El Salvador, and prospects have improved for normalizing relations within the economically important five-member Central American Common Market. Nicaraguan President Somoza, who has been greatly concerned over a leftward drift in Honduras, met with Melgar in early April and was generally reassured about his intentions and abilities.

An Improving Economy

9. On the economic front, there is probably nowhere to go but up after the twin buffeting the Honduran economy--one of the poorest in the hemisphere--suffered from the devastations of hurricane Fifi in 1974 and the effects of the worldwide recession. Real GDP declined less in 1975--0.8 percent--than in 1974, when it dropped 1.2 percent. For 1976, the Honduran National Development Council is predicting a 13 percent rise as world recovery progresses and the economy rebuilds from the hurricane. Exports, principally bananas and coffee, have begun to recover, and imports are holding steady.

10. The 1976 budget, which is 31 percent larger than 1975, projects a deficit of \$91.8 million and foreign borrowing of \$50 million. This injection of public funds should give the economy a boost. Inflation is expected to be relatively small, with the worldwide rate tapering off and Honduras reporting only a 6 percent inflation rate in the first eight months of 1975, about half the 1974 level. Inflows of public and private capital, including extensive disaster relief aid, are up--about \$130 million in 1975 compared with \$53 million in 1974--and should further spur economic activity.

Prospects

11. Given the generally backward economy and the consequent pressures and the still evolving political relationship between Melgar and his military backers, stability is far from a certainty. Nonetheless, the comparison with a year ago when the Melgar Castro government seemed beset from all sides is striking. This administration has a distinct prospect of carrying out its intention to rule until 1979 and hand over power to an elected successor.